



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Flagstaff Unified School District No.1

As of July 11, 2003



STATE OF ARIZONA
OFFICE OF THE
**AUDITOR
GENERAL**

Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Gregg Rickert, Manager and Contact Person
grickert@auditorgen.state.az.us

Roger Walter
Pete Robinson

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:
www.auditorgen.state.az.us



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

November 26, 2003

Governing Board
Flagstaff Unified School District No. 1
3285 East Sparrow Avenue
Flagstaff, AZ 86004

Members of the Board:

We completed a status review of deficiencies cited in the summary accompanying our February 21, 2003, letter. That summary described the deficiencies cited in the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2001. The District was given 90 days to correct the cited deficiencies. The purpose of our review was to determine whether the District made the corrections necessary to comply with the USFR. We also included in our status review additional deficiencies cited in the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2002. Our review, which consisted primarily of inquiries and selective testing of accounting records and control procedures, was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure disclosure of all instances of noncompliance with the USFR.

Based on the number and nature of the deficiencies noted in our status review, the District still had not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's continued noncompliance. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for correction.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this status review report.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



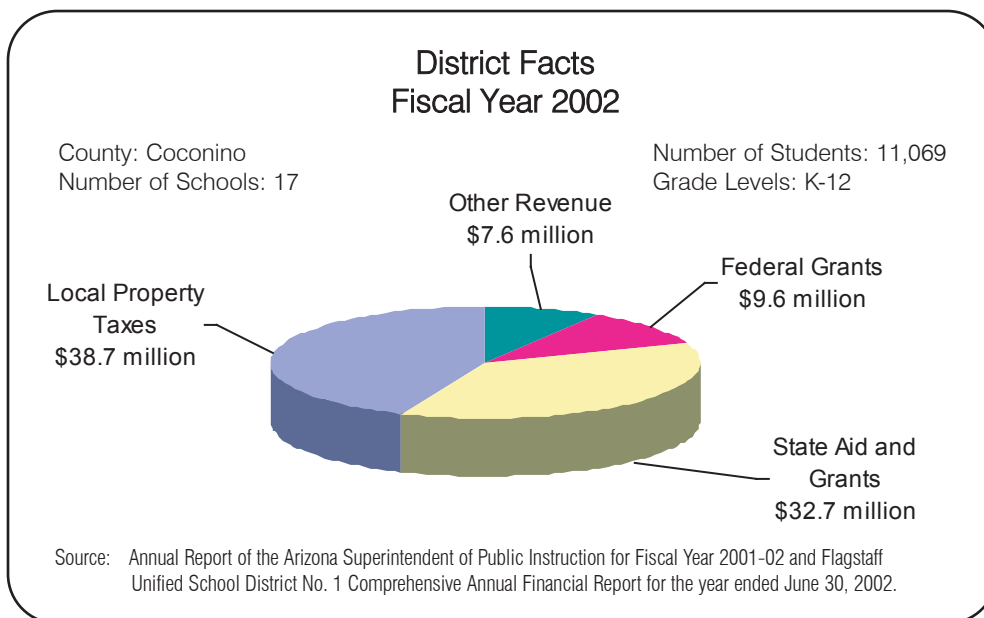
Introduction	1
Recommendation 1: District accounting records must be reconciled	2
Recommendation 2: The District must follow competitive purchasing requirements	3
Recommendation 3: The District should improve controls over auxiliary operations cash and cash receipts	3
Recommendation 4: The District should strengthen controls over student activities monies	4

INTRODUCTION

Flagstaff Unified School District No.1 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$88 million received in fiscal year 2001-02 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education. The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District has failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



District accounting records must be reconciled

At the time of our review, the District and the County School Superintendent's office were 9 months behind on reconciling the District's cash balances to those of the County Treasurer. As a result, the District had no assurance of the amount of cash on deposit with the County Treasurer that was available to pay district expenditures.

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should report accurate information to the public and agencies from which it receives funding.

The District and County School Superintendent's (CSS) Office use the same accounting system, which is maintained by the District. The CSS is responsible for reconciling the District's cash balances to the County Treasurer's records on a monthly basis. If the CSS fails to complete the reconciliations, the District is ultimately responsible for completing them. However, the District and CSS had not accomplished this objective. The District and CSS had not reconciled the District's cash balances to the County Treasurer's records because of computer conversion problems during FY 2001-02. As a result, the District was not able to ensure that cash balances, revenues, and expenditures had been accurately recorded in its accounting records. The District and CSS's Office have been working together to correct this deficiency; however, at the time of our review, the reconciliations were still 9 months behind.

The District should review its accounting records to determine if there is sufficient cash balance in a fund before approving expenditures. However, the District did not follow this procedure. The District had deficit cash balances in many cash-controlled funds.

Recommendations

The District should work with the CSS to reconcile the District's cash balances to the County Treasurer's records. Reconciliations should be performed at least monthly and the District should investigate and resolve any discrepancies in a timely manner. To avoid further backlogs in the reconciliation process, the District and CSS should reconcile the most current month first and continue to reconcile subsequent months in a timely manner. To resolve the backlog, the District and CSS should reconcile the oldest unreconciled month's records and continue forward.

Furthermore, to help ensure sufficient monies are available for disbursement and that expenditures do not exceed budgetary limits, the District should only approve expenditures for payment when sufficient cash and budget capacity is available. If sufficient cash balance or budget capacity is not available, the District should deny the payment of the expenditure.

The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public money they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. For example, the District did not obtain competitive sealed bids for an auditory products purchase that required sealed bids. For other purchases, the District did not follow USFR guidelines, as it did not always obtain oral or written price quotations, when applicable.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$32,700.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements, and other exceptions.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$32,700.

Recommendations

To strengthen controls over competitive purchasing, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals for purchases of construction, materials, or services exceeding \$32,700.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,700. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

The District should improve controls over auxiliary operations cash and cash receipts

The Auxiliary Operations Fund is used to account for monies collected at the District's bookstores and athletic events. Significant amounts of cash are collected at these locations. Because of the relative high risk associated with cash transactions, the District should have effective internal controls to safeguard cash and ensure that it is promptly and accurately recorded and deposited. These procedures should require district employees to reconcile sales to cash collected and reconcile bank accounts to district records. However, the District had not developed

The District did not develop written policies and procedures for the Auxiliary Operations Fund, which accounted for over \$300,000 in revenues during FY 2001-02, subjecting those monies to possible loss or theft.

written policies and procedures for these activities. As a result, prenumbered tickets were not used for admission sales to athletic events, and consequently, the District was unable to reconcile sales to cash collected. In addition, the District had not reconciled its Auxiliary Operations bank account since January 2003.

Recommendations

The District should develop and implement the necessary policies and procedures to adequately safeguard cash, and record, process, summarize, and report Auxiliary Operations Fund financial data. Those policies and procedures should include using prenumbered tickets to account for admission sales to athletic events and preparing an athletic ticket sales report for tickets sold. The number of tickets sold and the calculated sales amount should be compared to the actual cash collections on that report, and differences promptly investigated. Finally, monthly bank reconciliations for the Auxiliary Operations Fund should be prepared by the District on a timely basis.

The District should strengthen controls over student activities monies

Student activities monies are raised by students and held by the District for safekeeping. Therefore, the District has a duty to ensure that employees and student groups follow proper procedures for collecting and spending these monies. However, the District approved and paid student activities disbursements without ensuring sufficient cash was available. As a result, a number of student groups had deficit cash balances. In addition, monthly reports of student activities cash receipts, disbursements, transfers, and cash balances were not submitted to the Governing Board. Further, the District did not reconcile its student activities ledger balances to its check register balances.

Recommendations

The following procedures can help the District maintain effective internal controls over student activities monies:

- The student group should prepare and submit a student activities requisition form to the District, and the District should only approve the disbursement when sufficient cash is available. If the group's cash balance is not sufficient, the District should deny the requisition.

- The District's student activities treasurer should submit a report of student activities cash receipts, disbursements, transfers, and cash balances to the Governing Board monthly.
- The District should perform monthly reconciliations between the student activities ledgers and check registers.

A sample monthly activity report is available on USFR page X-H-28.